

# Auditing Procedures Report V1.04



Issued under Public Act 2 of 1968, as amended.

Unit Name	Township of Essex	County	CLINTON	Type	TOWNSHIP	MuniCode	19-1-180
Opinion Date-Use Calendar	Jul 16, 2008	Audit Submitted-Use Calendar	Jul 22, 2008	Fiscal Year-Use Drop List	2008		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies?
<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 156,450.00
General Fund Expenditure:	\$ 137,908.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 100,031.00
Governmental Activities Long-Term Debt (see instructions):	\$ 0.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

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CPA Firm Name	Abraham & Gaffney, P.C.	Unit's Street Address	4848 Colony Road	City	St. Johns	LU Zip	48879		

**Township of Essex  
Clinton County, Michigan**

**FINANCIAL STATEMENTS**

**March 31, 2008**

Township of Essex  
Clinton County, Michigan  
March 31, 2008  
BOARD OF TRUSTEES

David Swanson	Supervisor
Florence Benson	Clerk
Patti Warnke	Treasurer
Douglas Eldridge	Trustee
Lynn Ferguson	Trustee

Township of Essex  
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March 31, 2008

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INDEPENDENT AUDITOR'S REPORT

Members of the Township Board  
Township of Essex  
Clinton County, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Township of Essex, Michigan as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Township of Essex, Michigan as of March 31, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information, as identified in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Township has not presented a management's discussion and analysis (MD&A), which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that the MD&A is necessary to supplement, although not required to be part of the basic financial statements.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

July 16, 2008

## **BASIC FINANCIAL STATEMENTS**

Township of Essex  
STATEMENT OF NET ASSETS  
March 31, 2008

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 102,297
Investments	8,027
Receivables	4,573
Prepays	<u>2,922</u>
Total current assets	117,819
Noncurrent assets	
Capital assets, net of accumulated depreciation	<u>6,280</u>
TOTAL ASSETS	124,099
LIABILITIES	
Current liabilities	
Accounts payable	462
Accrued liabilities	<u>10,611</u>
TOTAL LIABILITIES	11,073
NET ASSETS	
Invested in capital assets	6,280
Unrestricted	<u>106,746</u>
TOTAL NET ASSETS	<u><u>\$ 113,026</u></u>

See accompanying notes to financial statements.

Township of Essex

STATEMENT OF ACTIVITIES

Year Ended March 31, 2008

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
General government	\$ 60,802	\$ 2,400	\$ -	\$ (58,402)
Public safety	20,922	-	-	(20,922)
Public works	55,787	-	3,463	(52,324)
Recreation and cultural	2,650	-	-	(2,650)
Total governmental activities	<u>\$ 140,161</u>	<u>\$ 2,400</u>	<u>\$ 3,463</u>	(134,298)
General revenues:				
Property taxes				67,599
State shared revenue				80,429
Investment earnings				1,502
Miscellaneous				<u>1,366</u>
Total general revenues				<u>150,896</u>
Change in net assets				16,598
Net assets, beginning of the year				<u>96,428</u>
Net assets, end of the year				<u>\$ 113,026</u>

See accompanying notes to financial statements.



Township of Essex

GOVERNMENTAL FUNDS BALANCE SHEET

March 31, 2008

	General	Nonmajor Permanent Fund Cemetery Perpetual Care	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 102,297	\$ -	\$ 102,297
Investments	-	8,027	8,027
Accounts receivable	115	-	115
Due from other funds	1,312	-	1,312
Due from governmental units - local	4,458	-	4,458
Prepays	2,922	-	2,922
<b>TOTAL ASSETS</b>	<b>\$ 111,104</b>	<b>\$ 8,027</b>	<b>\$ 119,131</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 462	\$ -	\$ 462
Accrued liabilities	10,611	-	10,611
Due to other funds	-	1,312	1,312
<b>TOTAL LIABILITIES</b>	<b>11,073</b>	<b>1,312</b>	<b>12,385</b>
<b>FUND BALANCES</b>			
Reserved for			
Prepays	2,922	-	2,922
Perpetual care	-	6,715	6,715
Unreserved - undesignated	97,109	-	97,109
<b>TOTAL FUND BALANCES</b>	<b>100,031</b>	<b>6,715</b>	<b>106,746</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 111,104</b>	<b>\$ 8,027</b>	<b>\$ 119,131</b>

See accompanying notes to financial statements.

Township of Essex

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

March 31, 2008

**Total fund balances - governmental funds** \$ 106,746

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	13,267	
Accumulated depreciation is	<u>(6,987)</u>	
Capital assets, net		<u>6,280</u>
<b>Net assets of governmental activities</b>		<b><u>\$ 113,026</u></b>

See accompanying notes to financial statements.

Township of Essex

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended March 31, 2008

	General	Nonmajor Permanent Fund Cemetery Perpetual Care	Total Governmental Funds
REVENUES			
Taxes	\$ 67,599	\$ -	\$ 67,599
Intergovernmental	83,892	-	83,892
Charges for services	2,400	-	2,400
Interest	1,193	309	1,502
Other	1,366	-	1,366
TOTAL REVENUES	156,450	309	156,759
EXPENDITURES			
Current			
General government	58,549	-	58,549
Public safety	20,922	-	20,922
Public works	55,787	-	55,787
Recreation and cultural	2,650	-	2,650
TOTAL EXPENDITURES	137,908	-0-	137,908
EXCESS OF REVENUES OVER EXPENDITURES	18,542	309	18,851
OTHER FINANCING SOURCES (USES)			
Transfer in	309	-	309
Transfer out	-	(309)	(309)
TOTAL OTHER FINANCING SOURCES (USES)	309	(309)	-0-
NET CHANGE IN FUND BALANCES	18,851	-0-	18,851
Fund balances, beginning of year	81,180	6,715	87,895
Fund balances, end of year	\$ 100,031	\$ 6,715	\$ 106,746

See accompanying notes to financial statements.

Township of Essex

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL  
FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended March 31, 2008

**Net change in fund balances - total governmental funds** \$ 18,851

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, this amount is:

Depreciation expense (2,253)

**Change in net assets of governmental activities** \$ 16,598

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

**NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Township of Essex, Michigan was organized as a Township under provisions of the constitution and general law of the State of Michigan. The Township is one of sixteen (16) townships in Clinton County and covers an area of approximately 36 square miles. The Township operates under an elected Township Board, which consists of a Supervisor, Clerk, Treasurer, and two trustees, and provides services to its residents in many areas including fire protection, roads, and planning.

**1. Reporting Entity**

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing* No. 5, these financial statements present all financial activities of the Township of Essex. The Township has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the basic financial statements of the Township of Essex contain all the funds controlled by the Township Board.

**2. Basis of Presentation**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government units as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements).

The statement of activities presents the direct functional expenses of the Township and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, unrestricted State revenue sharing payments, and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

**FUND FINANCIAL STATEMENTS**

The fund financial statements present the Township's individual major fund and nonmajor fund. Major individual governmental funds are reported as separate columns in the fund financial statements.

The major fund of the Township is:

General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

**NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are property taxes, special assessments, and certain intergovernmental revenues.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred except for interest on long-term debt which is recorded when due.

5. Budgets and Budgetary Accounting

The General Fund budget shown in the required supplementary information to the financial statements was prepared on a basis not substantially different than the basis used to reflect actual results.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to April 1, the budget is legally adopted on a departmental (activity) level through passage of a Board resolution. After the budget is adopted, all transfers of budgeted amounts between accounts within the fund or activity or any revisions that alter the total expenditures of the fund or activity must be approved by the Township Board.
- b. Formal budgetary integration is employed as a management control device during the year.
- c. The Township does not employ encumbrance accounting as an extension of formal budgetary integration. Appropriations unused at March 31 are not carried forward to the following fiscal year.
- d. Budgeted amounts are reported as originally adopted or amended by the Township Board during the year. The budget was not amended during the current year.

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

**NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**6. Cash, Cash Equivalents, and Investments**

Cash and cash equivalents consist of checking, savings, and money market accounts. Investments consist of a certificate of deposit with an original maturity of greater than 90 days. Cash, cash equivalents, and investments are recorded at market value.

**7. Property Tax**

The Township of Essex bills and collects both its own property tax levy and the tax levy for other governmental units. The Township's property tax revenue recognition policy and related tax calendar disclosures are as follows:

The property taxes attach as an enforceable lien on property as of December 1. Taxes are levied December 1 and are payable through February 14. All property taxes not paid by February 14 are deemed delinquent. Delinquent real property taxes are turned over to the Clinton County Treasurer on March 1. The Clinton County Treasurer remits payment to all taxing units on all delinquent real property taxes. Delinquent personal property taxes are retained by the Township for subsequent collection. Property taxes are recognized as revenues in the period for which they are levied.

The Township is permitted to levy up to \$1 per \$1,000 of assessed valuation for general governmental service. For the year ended March 31, 2008, the Township levied .9651 mills per \$1,000 of taxable valuation for general governmental services. The total taxable value for the 2007 levy for property within the Township was \$53,449,552.

**8. Capital Assets**

Capital assets include buildings and equipment and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities. Capital assets are those with an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Equipment	5 - 10 years
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**9. Comparative Data**

Comparative data has not been presented in the financial statements due to the Township's requirement to prepare audited financial statements only once every two years.

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS**

In accordance with Michigan Compiled Laws, the Township is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) and National Credit Union Administration (NCUA) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2008, the carrying amount of the Township's deposits was \$110,324 and the bank balance was \$110,429 of which \$108,124 was covered by federal depository insurance. The remaining balance of \$2,305 was uninsured and uncollateralized.

Due to significantly higher cash flows at certain periods during the year, the amount the Township held as cash increased significantly. As a result, the amount of uninsured and uncollateralized cash was substantially higher at these peak periods than at year-end.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of March 31, 2008, the Township did not have any investments that would be subject to rating.

Interest rate risk

The Township has not adopted a policy that addresses interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.



Township of Essex  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2008

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

**Concentration of credit risk**

The Township has not adopted a policy that addresses concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer.

**NOTE C: INTERFUND RECEIVABLES AND PAYABLES**

The amount of interfund receivables and payables at March 31, 2008, are as follows:

Due to General Fund from:	
Nonmajor governmental fund	\$ <u>1,312</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

**NOTE D: INTERFUND TRANSFERS**

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to General Fund from:	
Nonmajor governmental fund	\$ <u>309</u>

**NOTE E: CAPITAL ASSETS**

Capital asset activity for the year ended March 31, 2008, was as follows:

	Balance <u>April 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>March 31, 2008</u>
Equipment	\$ 13,267	-	-	13,267
Less: accumulated depreciation	<u>( 4,734 )</u>	<u>( 2,253 )</u>	<u>-</u>	<u>( 6,987 )</u>
Capital assets, net	<u>\$ 8,533</u>	<u>\$( 2,253 )</u>	<u>\$ -0-</u>	<u>\$ 6,280</u>

Depreciation expense in the amount of \$2,253 was charged to the general government function on the Statement of Activities.

Township of Essex

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

**NOTE F: FUND BALANCE RESERVES**

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use.

The following are the fund balance reserves as of March 31, 2008:

General Fund	
Reserved for prepaids	\$ <u>2,922</u>
Nonmajor governmental fund	
Reserved for perpetual care	\$ <u>6,715</u>

**NOTE G: RISK MANAGEMENT**

The Township participates in a pool, the Michigan Township Participating Plan with other municipalities for various risks of loss including liability, wrongful acts, auto, crime, inland marine, and property losses. The pool is organized under Public Act 138 of 1982, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to a special assessment to make up the deficiency. The Township has not been informed of any special assessments being required.

The Township also participates in a pool, the Michigan Municipal League Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Township has not been informed of any special assessments being required.

## **REQUIRED SUPPLEMENTARY INFORMATION**

Township of Essex

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>REVENUES</b>				
Taxes				
Current tax levy	\$ 45,000	\$ 45,000	\$ 54,810	\$ 9,810
Administrative fees	14,000	14,000	12,789	(1,211)
Total taxes	59,000	59,000	67,599	8,599
Intergovernmental				
State				
State shared revenue	80,000	80,000	80,429	429
Metro right of way	3,000	3,000	3,463	463
Total intergovernmental	83,000	83,000	83,892	892
Charges for services				
Fire runs	2,000	2,000	1,600	(400)
Land divisions	1,000	1,000	-	(1,000)
Cemetery lot sales	-	-	800	800
Total charges for services	3,000	3,000	2,400	(600)
Interest	1,000	1,000	1,193	193
Other revenue				
Refunds and rebates	-	-	163	163
Miscellaneous	1,000	1,000	1,203	203
Total other revenue	1,000	1,000	1,366	366
<b>TOTAL REVENUES</b>	<b>147,000</b>	<b>147,000</b>	<b>156,450</b>	<b>9,450</b>
<b>EXPENDITURES</b>				
General government				
Legislative	8,000	8,000	5,506	2,494
Supervisor/Assessor	20,000	20,000	16,462	3,538
Clerk	15,000	15,000	13,351	1,649
Board of Review	2,000	2,000	630	1,370
Treasurer	15,000	15,000	11,735	3,265
Elections	3,000	3,000	2,095	905
Township hall	3,000	3,000	3,000	-0-
Cemetery	8,000	8,000	5,770	2,230
Total general government	74,000	74,000	58,549	15,451

Township of Essex

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended March 31, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES - CONTINUED				
Public safety				
Fire protection	\$ 25,000	\$ 25,000	\$ 20,922	\$ 4,078
Public works				
Drains	8,000	8,000	7,194	806
Highways, streets and bridges	67,000	67,000	48,593	18,407
Total public works	75,000	75,000	55,787	19,213
Recreation and cultural	3,000	3,000	2,650	350
TOTAL EXPENDITURES	177,000	177,000	137,908	39,092
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(30,000)	(30,000)	18,542	48,542
OTHER FINANCING SOURCES				
Transfers in	-	-	309	309
NET CHANGE IN FUND BALANCE	(30,000)	(30,000)	18,851	48,851
Fund balance, beginning of year	81,180	81,180	81,180	-0-
Fund balance, end of year	\$ 51,180	\$ 51,180	\$ 100,031	\$ 48,851

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA  
Alan D. Panter, CPA



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS**

To the Members of the Township Board  
Township of Essex  
St. Johns, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of Township of Essex, Michigan as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements, and have issued our report thereon dated July 16, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township of Essex's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

FRAUD RISK MANAGEMENT PROGRAM

During the course of our audit, we noted that the Township has not developed or implemented a fraud risk management program. Management is responsible for the detection and prevention of fraud, misappropriations, and other inappropriate conduct. Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. Each member of the management team should be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

Due to the Township not developing a fraud risk assessment and monitoring program it is unable to assess the Township's vulnerabilities to fraudulent activity and whether any of those exposures could result in material misstatement of the financial statements.

## FRAUD RISK MANAGEMENT PROGRAM - CONTINUED

We recommend that the Township develop and formally implement a fraud risk management program that is appropriate to the size and complexity of the organization. Such a fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also include informing management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Governmental Accounting Standards Board (GASB) has determined that it is necessary all governmental entities supplement their basic financial statements with a management's discussion and analysis (MD&A), which would be an analysis of the financial performance for the year. The Township has not presented a management's discussion and analysis.

It has historically been common for many smaller governments to omit a MD&A. As a result, management's understanding and views of the financial statements are not readily available for reader's.

We are communicating these circumstances as required by professional standards. We recommend the Township Board consider the benefits of preparing a MD&A as well as the related costs to do so.

## SEGREGATION OF DUTIES

During our consideration and assessment of fraud risk, we noted that at the present time, the Township does not have sufficient segregation of duties in various functions. This issue was noted and reported in our prior audit comments.

While this is a common occurrence in many organizations due to the limited number of employees, the Board should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated. In smaller entities, where the number of employees is limited and duties cannot be adequately separated, the Board must provide a greater review and supervision of employee functions and procedures.

We recommend that the Board review various areas of operation and consider additional segregation duties to provide better internal controls. We also recommend that when the Board is adopting new or modifying existing financial policies, they consider the potential impact that fraud or misappropriation may have on the Township and assure that the policies address ways to prevent, deter, and detect fraud.

## PREPARATION OF FINANCIAL STATEMENTS

Effective for all audits of financial statements for the year ended December 31, 2006 and after, Statement on Auditing Standards No. 112 titled *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate when a client requires assistance in the preparation of financial statements and the related footnotes that are required in accordance with accounting principles generally accepted in the United States of America. Throughout the year the Township prepares monthly financial reporting at the fund level and the audited financial statements for the year ended March 31, 2008 for the Township of Essex required mainly only accrual audit adjustments. The staff at the Township of Essex does understand substantially all of the information included in the financial statements, and as such are able to take responsibility for the content. However, the presentation of financial statements in accordance with generally accepted accounting principles also includes the preparation of government-wide financial statements and note disclosures. Currently the government-wide financial statements and note disclosures are prepared during the audit process. We are communicating these circumstances as required by professional standards, and do not see a need for any change in the situation at this time.

## MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Material journal entries were proposed by the auditors. These misstatements were not detected by the Township's internal control over financial reporting. Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

## MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS - CONTINUED

Material journal entries for the adjustment of the cash basis information to the accrual basis were proposed by the auditors. These misstatements were not detected by the Township's internal control over financial reporting.

Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the Township's internal controls.

We recommend that the Township take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Township's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily identify all deficiencies in internal control that might be considered to be material weaknesses. We believe that the last significant deficiency described above related to material journal entries proposed by auditors to be a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instances of noncompliance or other matters.

### INVESTMENT POLICY

During the course of our audit and through discussions with administration, it was noted that the Township has not amended their investment policy to address various areas of risk as described by GASB Statement No. 40. Deposit and investment resources often represent significant assets of the Village's funds. These resources are necessary for the delivery of the Township's services programs. GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Township's ability to provide services and meet its obligations as they become due. This issue was noted and reported in our prior audit comments.

We recommend the Board review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk, if applicable. Such policies are required to be disclosed in the notes to the Township's financial statements by GASB Statement No. 40.

### CAPITAL ASSET THRESHOLD POLICY

During the course of our audit and through discussions with administration, it was noted that the Township has not adopted a policy to specify a dollar threshold to define long-lived assets that would be capitalized and depreciated in the financial statements. This issue was noted and reported in our prior audit comments.

We recommend the Board adopt a capitalization threshold policy that would define assets that are to be included in the financial statements as capital assets. At the Township's option, this policy may be applied retroactively to the current asset list or it may be applied for future purchases only.



This report is intended solely for the information and use of management and Members of the Township Board of the Township of Essex, others within the organization, and applicable departments of the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

July 16, 2008